



# Delta County Feasibility Study

## Food Manufacturing Facility

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## Table of Contents

Table of Contents .....	2
Overview .....	5
Study Area .....	5
Market Area .....	5
Specialty Food Demand Analysis.....	5
US Demand .....	5
Colorado Specialty Food Demand .....	6
Colorado Organic Food Demand .....	7
Colorado Local Food Demand .....	8
Supply Analysis.....	8
Agricultural Input.....	8
Supply of Organic Inputs .....	11
Adequacy of Inputs.....	11
Supply of Food Manufacturing Facilities .....	12
Shared Kitchens and Co-Packers .....	12
Cottage Foods.....	15
Company Owned/Leased Facilities .....	16
Case Study.....	16
Blue Mountain Station – Dayton, WA .....	16
Proposed Project .....	18
Site Analysis .....	18
Financial Analysis .....	19
Capital Costs .....	19
New Building.....	19
Existing building.....	22

Equipment Cost .....	24
Operating Budget .....	27
Potential Lease Revenue .....	27
Return on Investment – New Construction .....	28
Return on Investment – Meadow Gold Building .....	29
Incentives .....	30
Strategy .....	30
Natural Products Expo West .....	30
Fancy Food Show .....	31
Naturally Boulder .....	31
Conclusion .....	31
Appendix A: Meadow Gold Facility .....	32
Figure 1: US Food and Beverage Store Sales (\$ Million) .....	5
Figure 2: US Specialty Food Sales (\$ Million) .....	6
Figure 3: Organic Sales (US) .....	7
Figure 4: Colorado Value Added Organic Sales .....	7
Figure 5: Organic Crop Sales (% of Total Crop Sales) .....	11
Figure 6: 430 W 8th St. Delta, CO .....	16
Figure 7: Blue Mountain Station .....	16
Figure 8: 124 W 4th St. Delta, CO .....	19
Figure 9: Meadow Gold Facility Overhead View .....	32
Figure 10: Meadow Gold Floorplan .....	33
Figure 11: North Side .....	34
Figure 12: East Side .....	34
Figure 13: West Side .....	34
Figure 14: East Side .....	34
Figure 15: Northwest Corner .....	35
Figure 16: Southwest Corner .....	35

Table 1: Top 10 Specialty Food Categories (\$ Million) .....	6
Table 2: Colorado Specialty Food Sales (\$ Million) .....	7
Table 3: Colorado Definition of Local Food .....	8
Table 4: Likelihood of Buying Colorado Products if More Available.....	8
Table 5: Delta County Agricultural Production .....	9
Table 6: Delta Fruit and Berry Production .....	10
Table 7: Southwest Region Fruit and Berry Production.....	10
Table 8: Estimated Input Needed.....	11
Table 9: Delta County Input Adequacy.....	12
Table 10: Southwest Regional Input Adequacy .....	12
Table 11: Colorado Kitchen Share Facilities .....	14
Table 12: Colorado Co-Packing Facilities.....	15
Table 13: Site Selection Criteria .....	19
Table 14: New Construction Land/Hard Costs .....	20
Table 15: New Construction Soft Costs.....	21
Table 16: New Construction Total Cost.....	21
Table 17: Sources and Uses of Funds.....	22
Table 18: Meadow Gold Facility Purchase and Improvement Costs.....	23
Table 19: Meadow Gold Facility Total Cost.....	23
Table 20: Sources and Uses of Funds.....	24
Table 21: Food Processing Equipment.....	25
Table 22: Other Equipment.....	26
Table 23: Total Equipment Cost .....	26
Table 24: Operating Income .....	27
Table 25: Return on Investment - New Construction .....	28
Table 26: Return on Investment - New Construction.....	29

## Overview

The purpose of this report is to analyze the feasibility of a food manufacturing facility in Delta County Colorado.

## Study Area

The study area for this Project is Delta County Colorado. Delta County is located within the informal geographic area known as the Western Slope, which incorporates the portion of Colorado west of the continental divide. The Colorado River divides the Western Slope into north and south with the study area falling in the southern half of the Western Slope. The largest city in the region is Grand Junction located within 35 miles of the subject area and with a population of approximately 60,000.

I-70, which follows the Colorado River as it bisects the Western Slope, is the most important transportation corridor in the region connecting Grand Junction and Denver. Highway 50 also connects the Western Slope with the Front Range, running from Grand Junction, through Delta, to Pueblo. The Union Pacific Railroad runs from Delta to Grand Junction where it continues to both Denver and Salt Lake City.

## Market Area

The market area for this project is the state of Colorado. Despite the projects location on the Western Slope, it is assumed that the nature of manufactured food products allows for transport and sale throughout the state. The markets along the Front Range provide a larger customer base to which a food entrepreneur can sell, and will likely prove vital to the success of a new food manufacturer.

The market for goods produced through this project could potentially reach beyond the state; however, the ability to penetrate a market becomes more difficult to assess the broader the market.

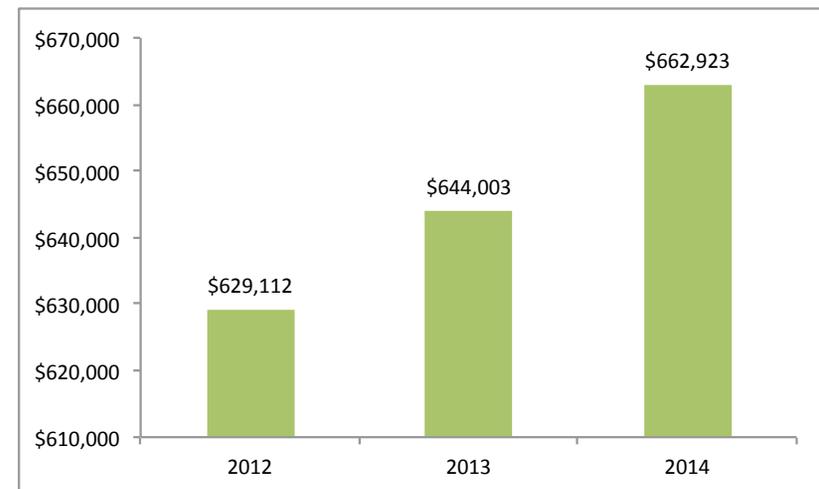


Because of this and in order to provide realistic and conservative analysis, the market size has been limited to the state.

## Specialty Food Demand Analysis

### US Demand

As illustrated in Figure 1 below, total US food sales from food and beverage stores have increased at a rate of 2.7% per year. This level of increase is likely due to inflation and modest US population growth.



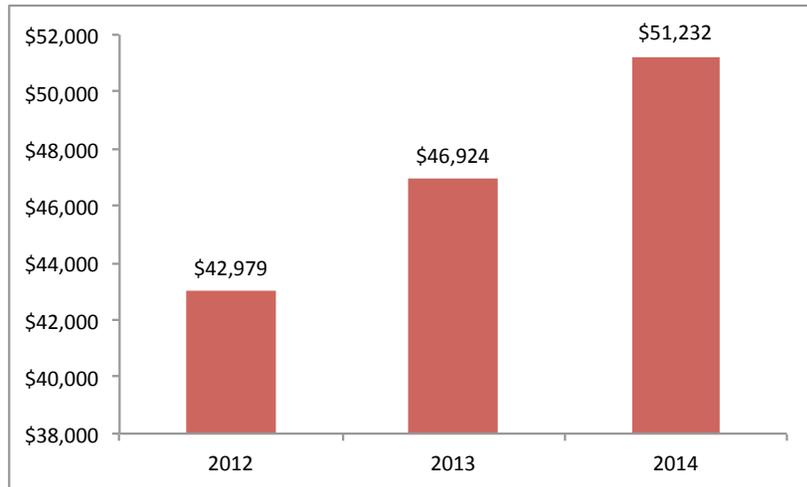
Source: US Census

Figure 1: US Food and Beverage Store Sales (\$ Million)

Such a stable food market is challenging for new entrants, as established firms that dominate the market will likely continue to do so. However, there are potential sub-categories in the food industry where new companies can find success.

Figure 2 shows the sales figures for specialty foods in the US. Sales in this sub-sector have grown at 9.2% per year since 2012. This is a

much more dynamic market that provides opportunities for entrepreneurs. Specialty foods are defined as foods or beverages of the highest grade, style, and/or quality in their respective categories. Their specialty nature derives from a combination of some or all of the following qualities: uniqueness, origin, processing method, design, limited supply, unusual application or use, extraordinary packaging, or channel of distribution/sales.



Source: Specialty Food Association  
Figure 2: US Specialty Food Sales (\$ Million)

The growth in specialty foods has been distributed among a variety of sub-categories as shown in Table 1 below. Sub-categories that could potentially have a competitive advantage in Delta County include cheese and cheese alternatives; chips, pretzels, and snacks; candy and individual snacks; condiments, dressings, and marinades; and nuts.

	2014	% Share	Growth
Cheese and Cheese Alternatives	\$3,708	7.2%	3.9%
Coffee, Coffee Substitutes, and Cocoa	\$3,476	6.8%	10.2%
Frozen/Refrigerated Meat/Poultry/Seafood	\$3,189	6.2%	12.6%
Chips, Pretzels, and Snacks	\$3,112	6.1%	11.6%
Bread and Baked Goods	\$2,351	4.6%	8.0%
Candy and Individual Snacks	\$2,082	4.1%	12.8%
Condiments, Dressings and Marinades	\$1,754	3.4%	5.9%
Frozen Lunch and Dinner Entrees	\$1,666	3.3%	8.9%
Yogurt and Kefir	\$1,568	3.1%	9.7%
Nuts, Seeds, Dried Fruit, and Vegetables	\$1,339	2.6%	2.4%

Source: Specialty Food Association

Table 1: Top 10 Specialty Food Categories (\$ Million)

### Colorado Specialty Food Demand

Although data is unavailable for specialty food sales in Colorado, assuming Colorado follows national trends can provide state level estimates, as shown in Table 2 below. Anecdotal evidence indicates that Colorado actually has higher rates of specialty food consumption than national averages, so these estimates are likely conservative. Applying the 7.7% nationwide specialty food share of total food sales to Colorado leads to an estimate of \$1.2B in statewide specialty food sales. Using the 9.2% national growth rate in specialty food sales leads to a growth estimate of \$117M per year. This dynamic market provides significant opportunities for new specialty food manufacturers to enter the market. New entrants can take advantage of the growth in the sector to attract customers without having to pull them away from existing companies.

	2014
Total Food Sales (CO)	\$16,391
Specialty Food Sales (% Share)	7.7%
<b>Specialty Food Sales (CO)</b>	<b>\$1,267</b>
Specialty Food Sales Growth	9.2%
<b>Specialty Food Sales Growth (CO)</b>	<b>\$117</b>

Table 2: Colorado Specialty Food Sales (\$ Million)

### Colorado Organic Food Demand

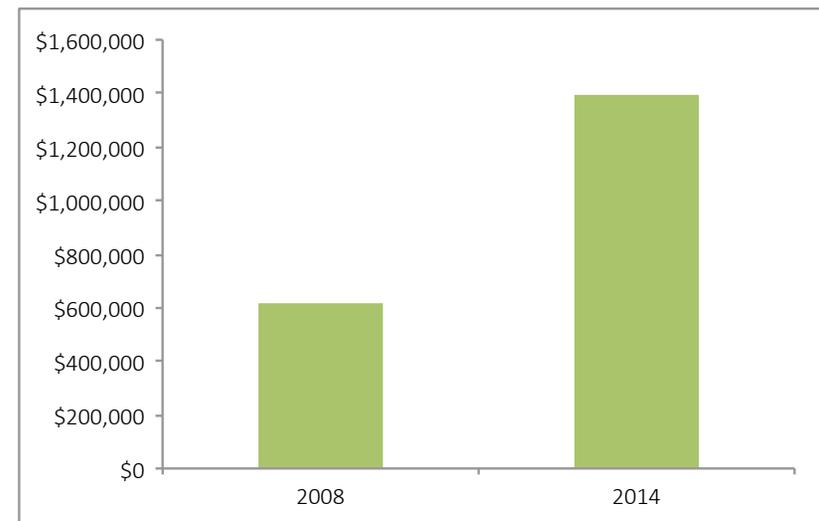
One sub-sector of specialty food in which Delta County can be competitive is organic food products. As shown in Figure 3, sales of organic products in the United States increased to \$35.1 billion in 2013, up 11.5% from the previous year's \$31.5 billion and the fastest growth rate in five years. According to "The United States Organic Food Market Forecast & Opportunities, 2018," the organic food market in the United States is projected to grow approximately 14% per year through 2018.



Source: Organic Trade Organization  
Figure 3: Organic Sales (US)

Currently, 81% of U.S. families now choose organic food at least sometimes. However, according to a report by Information Resources, Inc., almost half of organic sales are made to only 18% of consumers. This indicates strong potential for growth in the rest of the consumer population.

In Colorado, growth in organic agriculture has also grown tremendously. As shown in Figure 4 below, 2014 value added organic sales amounted to almost \$1.4M, up from approximately \$620,000 in 2008. This represents an annual growth rate of over 14% per year. This dynamic sector shows significant demand and provides opportunities for new entrants.



Source: US Census Organic Survey  
Figure 4: Colorado Value Added Organic Sales

### Colorado Local Food Demand

Another category of specialty food that has seen increased demand in recent years is local food. According to the Colorado Department of Agriculture’s Public Attitudes About Agriculture and Food Survey, most Coloradans interpret “local” when making their food purchase decisions as food produced in Colorado. As shown in Table 3, 69% of respondents said that local meant that the food was produced in Colorado. Only much smaller percentages indicated any specific distance from their residence, with smallest area being 50 miles.

Definition of Local	%
Produced in Colorado	69%
Produced within 100 miles	11%
Produced in home county	10%
Produced within 250 miles	5%
Produced within 400 miles	2%
Don't know	2%
Other*	1%

\*Other responses included the following: 50 miles; Colorado and surrounding states; it didn't have to get on an airplane to get to me; and within Weld/Larimer counties.

Source: Colorado Department of Agriculture  
Table 3: Colorado Definition of Local Food

According to the same survey, more than 90% of Coloradans would definitely or probably buy more Colorado products if they were labeled as such or were more available.

Likelihood of Buying Colorado Products	%
Definitely	40.1%
Probably	50.4%
Probably No	4.2%
Definitely No	0.2%
Don't Know	5.2%

Source: Colorado Department of Agriculture  
Table 4: Likelihood of Buying Colorado Products if More Available

In a follow up question about whether they purchased Colorado products when shopping or eating out, 6.5% said “always” and 37% said “most of the time”.

These survey results and industry projections indicate that specialty food products produced in Delta County would likely be marketable statewide. If such products are made from Delta County ingredients, they would be marketable across the state as local food and such a label would make these products more competitive. Within this general demand for specialty food products, there are a variety of demands for individual products that depend upon a variety of factors and may be greater or less than these overall trends.

### Supply Analysis

#### Agricultural Input

Delta County has a rich agricultural tradition and has recently emerged as a leader in sustainable practices, soil health, and organic agriculture. There are over 1,200 farms and over 250,000 acres of farmland in Delta County. The County is a major contributor to Colorado’s overall agricultural output.

According to the USDA Census of Agriculture, crops makes up 42% of the total value of County agricultural products sold with livestock making up the remaining 58%. Cattle and calves are the County's single biggest source of agricultural income representing 32% of the total value of agricultural products sold. Of the land used by farms, 53% is used as pastureland (mostly for cattle). Only 25% of the farmland is used for cropland. The top crops in the County are corn, vegetables, and dry beans. The market value for a variety of the agricultural commodities produced in the County are illustrated in Table 5.

Commodities	Sales (000)	State Rank
Cattle	\$17,655	24
Milk from cows	\$7,097	9
Fruits/tree nuts/berries	\$6,998	2
Grains/oilseeds/dry beans/dry peas	\$6,178	26
Other crops/hay	\$5,144	21
Vegetables/melons/potatoes/sweet potatoes	\$3,436	12
Nursery/greenhouse/floriculture/sod	\$1,826	17
Horses/ponies/mules/burros/donkeys	\$1,024	9
Aquaculture	\$837	5
Other animals and other animal products	\$575	9
Hogs/pigs	\$98	16
Poultry/eggs	N/A	5
Sheep/goats/wool/mohair/milk	N/A	4

Source: US Census

Table 5: Delta County Agricultural Production

One item of note in this table is the high ranking of fruit, tree nut, and berry production in the County. Although it is not the largest sub-sector, the County out produces all other counties in the state but one. This unique niche could provide an opportunity for food entrepreneurs who are interested in using local produce, especially fruits, to create a value added product.

The overall production of fruits and berries in the County is depicted in Table 6 below. In addition to Delta County production, a food manufacturing facility would be able to draw from growers across the region. Fruit and berry production for the Southwest region of Colorado including Archuleta, Delta, Dolores, Garfield, La Plata, Mesa, Montezuma, Montrose, Ouray, and San Miguel Counties are depicted in Table 7 below. The estimates for total output in these tables are derived from US Census of Agriculture data for total number of acres involved in production combined with high and low industry averages for yield per acre.

As shown in these tables, apples and peaches are the largest fruit crops both in Delta and in the region. Cherries, pears, and grapes also play a prominent role in the County. Food manufacturing facilities that can take advantage of the products grown in the region could include those capable of making jams, sauces, and marmalades, fruit based snacks, and juices.

Commodity	Growers	Acres	Low Est. Yield (lb/acre)	High Est. Yield (lb/acre)	Low Est. Production (lbs)	High Est. Production (lbs)
Apples	91	602	13,500	20,000	8,127,000	12,040,000
Apricots	27	23	10,000	11,000	230,000	253,000
Cherries, Sweet	52	176	12,000	12,000	2,112,000	2,112,000
Cherries, Tart	15	92	5,000	12,000	460,000	1,104,000
Grapes	45	125	7,000	7,000	875,000	875,000
Peaches	69	721	9,000	10,000	6,489,000	7,210,000
Pears	31	111	12,000	18,000	1,332,000	1,998,000
Plums & Prunes	10	12	12,000	12,000	144,000	144,000
Blackberries	7	6	7,000	8,000	42,000	48,000
Raspberries	11	3	2,500	5,000	7,500	15,000
Strawberries	8	2	5,000	10,000	10,000	20,000

Table 6: Delta Fruit and Berry Production

Commodity	Growers	Acres	Low Est. Yield (lb/acre)	High Est. Yield (lb/acre)	Low Est. Production (lbs)	High Est. Production (lbs)
Apples	270	1,005	13,500	20,000	13,567,500	20,100,000
Apricots	115	74	10,000	11,000	740,000	814,000
Blackberries	12	6	12,000	12,000	72,000	72,000
Cherries, Sweet	138	263	5,000	12,000	1,315,000	3,156,000
Cherries, Tart	56	115	7,000	7,000	805,000	805,000
Grapes	172	970	9,000	10,000	8,730,000	9,700,000
Peaches	301	2,751	12,000	18,000	33,012,000	49,518,000
Pears	100	231	12,000	12,000	2,772,000	2,772,000
Plums & Prunes	42	31	7,000	8,000	217,000	248,000
Raspberries	33	6	2,500	5,000	15,000	30,000
Strawberries	18	3	5,000	10,000	15,000	30,000

Table 7: Southwest Region Fruit and Berry Production

### Supply of Organic Inputs

Delta County has more organic crop growing operations than any other county in Colorado. Additionally, Delta County’s organic sales as a percent of total crop sales greatly outpace state and national averages. According to USDA data, organic sales in the County are 4.3% of total crop sales compared to 1.5%<sup>1</sup> and 0.9% for the nation and state respectively (see Figure 5).

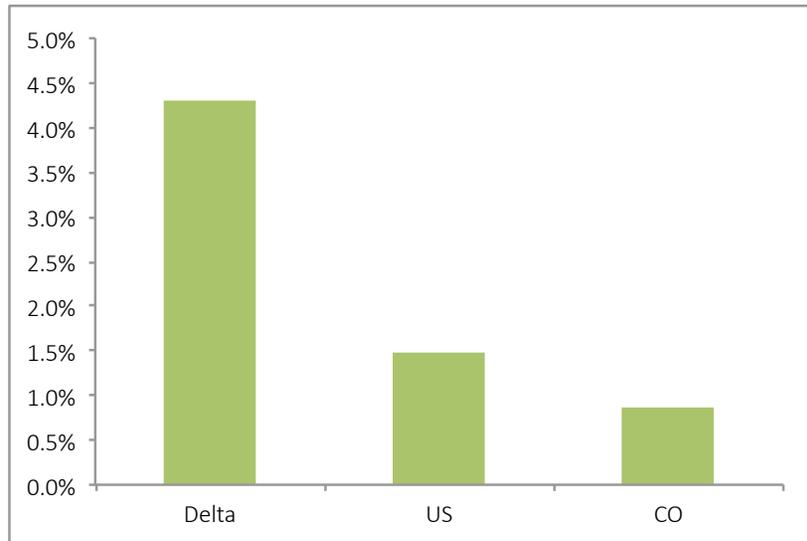


Figure 5: Organic Crop Sales (% of Total Crop Sales)

Organic agriculture production is also likely to grow in coming years, as a recent survey of growers across the state revealed that over half of organic producers are planning to expand production over the next five years and over a third are planning to maintain current levels. Interviews with Delta area farmers also identified potential for

<sup>1</sup> Information from the Organic Trade Organization indicates that the national share of organic food sales is closer to 4%.

increased output as a large portion of those interviewed indicated that they could expand their operation to meet additional demand. Given its number of producers, concentration of sales, and potential for growth the County has the potential to source organic inputs for a food manufacturer. According to Delta area farmers, the primary challenge a food manufacturer would face in sourcing local produce is meeting the high price farmers can obtain if they sell their products directly to consumers or fresh fruit wholesalers. The price for such sales can be more than twice as much as the price paid by food processors.

### Adequacy of Inputs

The input needs of a food manufacturing facility vary significantly depending upon the product produced. Without knowing in advance who the end user would be and what they would produce, and without negotiating with suppliers, it is impossible to provide a definitive assessment of the ability of local growers to source a manufacturing facility.

To provide an estimate of a facility’s needs, this analysis assumes that the item produced is a fruit sauce or jam that requires 10 lbs of raw input for each gallon of output, as shown in Table 8. To determine the potential output of a manufacturing facility, interviews were conducted with food manufacturers providing an estimate of 2,250 gallons per day for a representative facility running at full capacity. Using these estimates, the hypothetical facility would demand almost 6 million pounds of raw fruit input per year.

Lbs per Gallon	10
Gallons per Day	2,250
Gallons per Year	585,000
<b>Lbs per Year</b>	<b>5,850,000</b>

Table 8: Estimated Input Needed

Table 9 illustrates the portion Delta County fruit production that would be needed to meet this demand. Depending upon whether the facility would use only one type of fruit or many, the portion of output required would range between 23% and 90%. If the facility uses inputs from across the region, the portion of output required would range from 8% to 43% as shown in Table 10.

	Low	High
<b>Lbs Needed per Year</b>	<b>5,850,000</b>	<b>5,850,000</b>
Delta Apple Production	8,127,000	12,040,000
% of Apple Production Needed	72%	49%
Delta Peach Production	6,489,000	7,210,000
% of Peach Production Needed	90%	81%
Delta Total Fruit/Berry Production	18,953,500	24,944,000
% of Total Production Needed	31%	23%

Table 9: Delta County Input Adequacy

	Low	High
<b>Lbs Needed per Year</b>	<b>5,850,000</b>	<b>5,850,000</b>
Regional Apple Production	13,567,500	20,100,000
% of Apple Production Needed	43%	29%
Regional Peach Production	33,012,000	49,518,000
% of Peach Production Needed	18%	12%
Regional Total Fruit/Berry Production	52,530,500	77,545,000
% of Total Production Needed	11%	8%

Table 10: Southwest Regional Input Adequacy

Even in the best case scenario, this one facility would demand a significant portion of total output in the County and Region. Given this high threshold and the potential reluctance of local suppliers to provide fruit for processing rather than fresh consumption, a food manufacturing facility in the County would need to import additional inputs in order to meet demand.

## Supply of Food Manufacturing Facilities

### Shared Kitchens and Co-Packers

There are several food manufacturing facilities available to entrepreneurs in the State. These range from shared kitchen facilities that provide hourly kitchen rental space to co-packing companies that carry out all aspects of the manufacturing and packaging process for an entrepreneur. These facilities are overwhelmingly located along the Front Range as shown in Map 1, Table 11, and Table 12. Leroux Creek Foods is the only one of these companies located in Delta County. Leroux Creek primarily processes their own products; however, they do offer co-packing services as well.



Map 1: Colorado Shared Kitchens and Co-Packing Companies

Name	Location	Rental Rate (per Hour)	Size of Kitchen/Plant
Boulder Kitchen Share	Boulder	\$11.76	1,800 SF (1 Kitchen)
Busy D's Pickles	Arvada	N/A	Small (1 Kitchen)
Celestial Catering	Aurora	\$13.50	1,000 SF (1 Kitchen)
City Ice Kitchens	Denver	\$17.00	N/A
Denver Kitchen Share	Denver	\$11.75	1,800 SF (1 Kitchen)
Elizabeth Commissary	Elizabeth	N/A	N/A
Gilberto's Gourmet Goodness	Fort Collins	\$22.50	1,500 SF (1 Kitchen)
The Kitchen Coop	Broomfield	N/A	23,000 SF (5 Production Spaces)
Kitchen Network Bottling Company	Denver	N/A	3,000 SF (1 Kitchen)
Kitchen Pantry	Canon City	\$10	2,000 SF (1 Kitchen)
Larimer 35	Denver	N/A	2,000 SF (1 Kitchen)
Longmont Kitchen Share	Longmont	\$9.80	1,800 SF (1 Kitchen)
Mile High Commissary	Aurora	\$17.50	2,000 SF (2 Kitchens)
Pacific Place Partners	Denver	N/A	N/A
Rocky Mountain Commissary	Arvada	N/A	12,500 SF (15 Kitchens)
Sosi's Healthy Pleasures	Denver	N/A	5,000 SF (1 Kitchen)
ZZ's Commissary	Denver	N/A	6,000 SF (3 Kitchens)
Median		\$12.63	2,000 SF

Table 11: Colorado Kitchen Share Facilities

Name	Location
Boulder Sausage	Louisville
Busy D's Pickles	Arvada
Columbine Specialty Products	Denver
Fresca Foods	Louisville
Freshies Food Corporation	Denver
Gilberto's Gourmet Goodness	Fort Collins
Kitchen Network Bottling Company	Denver
Landmark Foods, LLC	Littleton
Leroux Creek Foods	Hotchkiss
Natural Foodworks Group, LLC	Denver
Pacific Place Partners	Denver
Poudre River Foods	Greeley
Ready Foods, Inc.	Denver
Redlaw Sauce Co.	Golden
Rocky Mountain Gourmet Food Company	Castle Rock
Rocky Mountain Spice Company	Denver
Silver State Foods, Inc.	Denver
The Kitchen Coop	Broomfield
Western Innovations	Denver

Table 12: Colorado Co-Packing Facilities

As shown in Table 11, the average hourly rate for shared kitchens in the state is approximately \$13. Such facilities average 2,000 SF and have a range of equipment available to food entrepreneurs and most offer dry and cold storage. Shared kitchen facilities are often a useful option for entrepreneurs in the early stages of their business.

The flexibility and hourly rates can keep costs low during phases of product development and small-scale production.

Co-packing facilities are an effective option for entrepreneurs whose strengths lie in marketing and selling their products rather than managing and developing manufacturing processes. The drawbacks of co-packing facilities are a loss of control for the entrepreneur and logistical hurdles that can arise.

### Cottage Foods

For food entrepreneurs in the very early stages, Colorado law allows for some commercial food production out of home kitchens through the Colorado Cottage Food Act.

According to the law, a Cottage Food producer is defined as an individual who is a resident of Colorado or a Limited Liability Company (LLC) formed in Colorado, consisting of two or fewer members, and of which all members are residents of Colorado. The Act also states that *“a producer must take a food safety course that includes basic food handling training and is comparable to, or is a course given by, the Colorado state university extension service or a state, county, or district public health agency, and must maintain a status of good standing in accordance with the course requirements, including attending any additional classes if necessary.”*

Recent changes to the law increase the net revenue allowed by cottage foods producers to a maximum of ten thousand dollars per calendar year from the sale of each eligible food product produced in the producer’s home kitchen or a commercial, private or public kitchen.

Products allowed under the law are limited to a range of foods that are non-potentially hazardous and that do not require refrigeration. These foods are spices, teas, dehydrated produce, nuts, seeds,

honey, jams, jellies, preserves, fruit butter, flour, fruit empanadas, tortillas, and baked goods, including candies. Recent changes to the law add a second tier of allowable food items to include pickled vegetables that have an equilibrium pH value of 4.6 or lower. However, tier 2 foods cannot be produced under the law until additional handling rules are developed by the State Board of Health.

Foods produced under this act must be sold only directly to ultimate consumers and not to grocery stores or restaurants; and must be sold only on the producer's premises, at the producer's roadside stand, or at a farmers' market, community-supported agriculture organization, or similar venue where the product is sold directly to consumers.

### Company Owned/Leased Facilities

For companies that need constant access to a production facility and want to maintain control of the manufacturing process, owning or leasing a facility is often the best option. In interviews with food manufacturers in the region, many progressed from their home kitchen to a shared kitchen to either a co-packer or their own facility. Some attempted using a co-packer, then decided to build their own facility in order to regain control of their product through its entire life cycle. Key components of a food manufacturing facility include a well equipped commercial kitchen, dry and cold storage for both inputs and finished products, efficient warehouse receiving space, office space, and room for expansion as the company grows.

There is warehouse space for lease in Delta County that could be used by food manufacturers. A property at 430 W 8<sup>th</sup> St. has several buildings available, and its potential tenants include some local food manufacturers. There is more than 100,000 SF of space available across 12 buildings with natural gas and 3 phase power. The average

annual lease rate is \$1.51 per SF. All leases are adjusted gross; tenant pays utilities, liability insurance and routine maintenance.



Figure 6: 430 W 8th St. Delta, CO

## Case Study

### Blue Mountain Station – Dayton, WA



Figure 7: Blue Mountain Station

In 2013, the Port of Columbia opened Blue Mountain Station calling it “the world’s first eco-friendly artisan natural and organic culinary center.” The first building in the food focused industrial park is an Artisan Food Center. The Artisan Food Center is a 6,912 square foot building that houses 6 leased food processing spaces, a shared commercial kitchen, and a small retail area. All food processing spaces meet USDA and local health department requirements.

Blue Mountain Station is located in an urban renewal area and has a mission to support and grow businesses that add value to agricultural products grown and produced in the foodshed—before they are consumed or shipped out of the foodshed.

In addition to value added production, Blue Mountain Station includes a culinary tourism element through its welcoming design and retail component.

Blue Mountain Station was funded through a partial grant for \$200,000 and an \$800,000 zero interest loan with a 5-year deferral. This initial \$1,000,000 covered land purchase and completed the first phase of infrastructure in a four-phase plan.

Building 1 includes eight leasable spaces, each roughly 575 sq. ft. with some tenants leasing more than one space. Each space has been designed with food processing and packaging in mind, but they will be finished to each tenant’s specifications. There is also a general-use commercial kitchen (~1,000 sq. ft) included in Phase I, available to tenants as well as the public on an hourly basis.

The Port is also in discussions with area co-packers about setting-up operations at Blue Mountain Station. Co-location with a co-packer could benefit many of the businesses and potential businesses at Blue Mountain Station, offering preparation and packaging services

right on site under the Blue Mountain Station label or their own label.

With the first phase complete, Blue Mountain Station has begun aggressively marketing their strategy. Blue Mountain Station has its own label, under which existing businesses can re-brand or new businesses can start. For 5% of gross sales, food businesses can use Blue Mountain Station’s comprehensive marketing plan. This partnership includes use of the Blue Mountain Station brand, a direct marketing program, club sales, trade shows and other sale and marketing channels. Blue Mountain Station has a clear focus on marketing as a key to its success. Already, it has created the “Blue Mountain Station Cookbook,” which will be featured in The Recipe Manager and sold through major retailers around the world. Also, through the International Marketing Program at Washington State Department of Agriculture, Blue Mountain Station tenants and partners will be able to participate in out-bound and in-bound foreign buyer trade missions.

Blue Mountain Station products are available for sale at its retail store, but many businesses will distribute products at farmers’ markets and stores or through wholesale channels. “Even though the focus of the project is wholesale food manufacturing,” Blue Mountain Station manager, Jennie Dickinson, reported, “it’s important for the public to be able to come and take part in what’s happening here and for the tenants to add the additional retail revenue to their bottom line.” New jobs are the primary goal of the plan, with tourism as an ancillary component. Blue Mountain Station projects it will create 300 jobs in eco-food production, processing and marketing, and it is currently marketing its space.

Unlike many food business resource facilities, Blue Mountain Station’s genesis took shape around a clearly defined need. “We

asked for this grant because we were approached by several small businesses that didn't have the means to build their own facility," said Dickison. Unlike some Food Hubs, Blue Mountain Station merely clusters and supports other businesses which take on the operational demands and business risks in the market. This approach has an advantage over facilities which take a more direct role in operations, which invariably suffer the normal cycles of the food market—often leading to management changes or strategy revisions. With little direct operational risk itself, Blue Mountain Station's revenue base is diversified across the tenants it hosts and supports.

This case study highlights the potential for developing a food manufacturing cluster in a small rural community. The model undertaken by Blue Mountain Station is an option for Delta County, if demand for space from several small manufacturers is identified. Additional options are outlined below.

## Proposed Project

In order to best meet the needs of Delta County, the proposed facility should be able to accommodate a small to medium sized producer with room to expand. A 7,000-9,000 square foot facility should meet this need. Approximately 2,000 square feet of the facility would house a commercial kitchen with the equipment needed for sorting, prepping, cooking, and packaging food products. Although the specific equipment needed will vary by user, the agricultural strengths of the region would likely fit well with a facility that could manufacture jams, sauces, salsas, nut butters, and spreads. Key pieces of equipment for such an operation would include steam kettles, filling machines, and bottle/jar cappers among others. The facility should have ample dry and cold storage, office space, and a receiving area preferably with raised docks.

The business model proposed is a municipally owned facility leased to an individual tenant at favorable rates with an option to purchase as the company grows. An individual tenant able to utilize the entire facility will have a higher demand for labor than several small companies sharing a facility providing a more stable economic impact to the community. A facility of this size could likely support 8-10 workers and 2 to 3 professionals. To capitalize upon the potential success of a project such as this, the community should look to repeat the process if a tenant becomes successful enough to purchase the building. If during the recruitment process demand for smaller shared space is identified, the facility could be subdivided into smaller leasable space with a shared kitchen, similar to the case study above, as a secondary option.

## Site Analysis

Potential sites for a new food manufacturing facility include existing facilities as well as greenfield sites for new construction. Table 13 below ranks various site selection criteria according to the following scale of importance: "1," preferable; "2," helpful; "3," absence will require some compromises; "4," will impede operation significantly.

Criteria	Rating
Public Water System	3
Public Sewer with Adequate Capacity	3
3 Phase Electricity	3
Commercial or Industrial Neighborhood	3
Adequate Turn Radius for Tractor Trailers	3
Truck Height Loading Dock (existing building)	3
Building 12,000 s.f. or Larger (existing building or max for lot)	2
Building 9000 s.f. to 12000 s.f. (existing building or max for lot)	2
Building 7000 s.f. to 9000 s.f. (existing building or max for lot)	1
Building Less Than 7000 s.f. (or max building size for lot)	4
12'+ Interior Clearance (existing building)	2
Walking Distance of Delta Downtown	2
On or Adjacent to Class I or II Road	2
Class III or Higher Road Access	4
New Construction	1
Building Age Less than 15 Years	2

Table 13: Site Selection Criteria

A hypothetical greenfield site with access to downtown, transportation, water, sewer and electricity would meet all desired criteria and have none of the criteria that would impede the project.

The most likely existing building that could be used for a facility such as this is the former Meadow Gold plant at 124 W 4<sup>th</sup> St. in downtown Delta. This is a 19,500 SF facility with 10 loading dock doors, office space, and a variety of potential production spaces. The property is currently listed for sale for \$350,000. The facility meets almost all of the desired criteria listed above. It is larger than necessary for a small to medium sized manufacturer, and is over 70 years old and will require significant improvements. Additionally, the building is largely subdivided into small spaces, which can inhibit the

efficiency of the space. For the layout of the facility and additional images, please see Appendix A.



Figure 8: 124 W 4th St. Delta, CO

## Financial Analysis

Financial analysis of both a new construction project and the repurposing of the Meadow Gold Facility follows below.

### Capital Costs

#### New Building

The capital costs associated with the construction of a new building are outlined in Table 14, Table 15, and Table 16 below.

Item	Method	Factor	Bldg. Total
Acreage		N/A	0.86
Land Square Footage	Square Feet per Acre	43,560	37,500
Building Square Footage	Lot Coverage	0.24	9,000
<b>Land</b>	<b>Per Acre</b>	<b>125,000</b>	<b>\$107,610</b>
<b>Hard Costs</b>			
Road Costs	Per Square Foot	3.40	\$35,124
Site Costs	Per Square Foot Land	4.50	\$168,750
Shell Costs	Per Square Foot	29.65	\$266,874
<b>Shell + Site Costs</b>	<b>Per Square Foot</b>	<b>44.50</b>	<b>\$435,624</b>
Tenant Improvements	Per Square Foot Office/Kitchen	20.00	\$58,000
<b>SubTotal Hard Costs</b>	<b>Per Square Foot</b>	<b>54.85</b>	<b>\$493,624</b>
Hard Cost Contingency	% of Hard Costs Subtotal	5%	\$24,681
<b>Total Hard Costs</b>			<b>\$518,305</b>

Table 14: New Construction Land/Hard Costs

Total land costs for the project are estimated to be \$107,610. This is based on comparable land price listings in the region, which average \$125,000 per acre. It is estimated that 0.86 acres would be needed to accommodate a 9,000 SF facility at an industry average load factor of 24%.

Shell and site costs are estimated to be \$435,624, which includes \$35,124 in road expenses to construct an assumed 200 linear feet of road per acre. Tenant improvements have been estimated for office space, which is expected to be 10% of the total building square footage and 2,000 SF of kitchen space. The total hard costs for the development are expected to be \$518,305.

Item	Method	Factor	Bldg. Total
<b>Soft Costs</b>			
<b>Developer Overhead Costs</b>			
Accounting Reserve	Per Building	1,500	\$1,500
Administrative Miscellaneous	Per Building	1,500	\$1,500
Developer Fee	% of Total Costs	4.0%	\$20,732
<b>SubTotal Developer Overhead Costs</b>			<b>\$23,732</b>
<b>Financing Costs</b>			
Bank Appraisal	Per Loan	\$ 3,500	\$3,500
Bank Inspections	Per Loan	\$ 2,500	\$2,500
Permanent Loan Origination Fee	% of Loan Amount	1%	\$4,550
Construction Loan Interest	Interest Rate & ETC		\$11,691
Construction Loan Origination Fee	% of Loan Amount	1%	\$5,308
Miscellaneous Loan Fees	% of Loan Amount	1%	\$5,308
<b>SubTotal Financing Costs</b>			<b>\$32,857</b>
<b>Taxes &amp; Fees</b>			
Fees	Per Building	\$ 2,000	\$2,000
Property Tax	Delta County Assessor	5.85%	\$12,870
<b>SubTotal Taxes &amp; Fees</b>			<b>\$14,870</b>
<b>Studies &amp; Design</b>			
ALTA Survey	Per Parcel / Building	\$ 5,000	\$5,000
Architecture & Design	% of Hard Costs	4.50%	\$23,324
Civil Engineering Offsite	% of Roadwork Costs	4.00%	\$1,405
Civil Engineering Onsite	% of Hard Costs	0.75%	\$3,887
Environmental Study	Per Parcel / Building	\$ 1,500	\$1,500
Geotechnical Investigation	Per Parcel / Building	\$ 4,000	\$4,000
Traffic Study	Per Parcel / Building	\$ 600	\$600
<b>SubTotal Studies &amp; Design</b>			<b>\$39,716</b>
<b>Risk Mitigation</b>			
Builder's Risk Insurance	% of Hard Costs	0.75%	\$3,887
Legal Fees	Per Building	\$ 5,000	\$5,000
Performance & Completion Bond		1%	\$5,183
Property, Liability, & Casualty Insurance	% of Hard Costs	0.25%	\$1,296
Title Policy & Updates	Per Parcel / Building	\$ 500	\$500
<b>SubTotal Risk Mitigation</b>			<b>\$15,866</b>
<b>SubTotal Soft Costs</b>			<b>\$127,041</b>
Soft Cost Contingency	% of Soft Costs SubTotal	5.0%	\$5,315
<b>Total Soft Costs</b>			<b>\$132,357</b>

Table 15: New Construction Soft Costs

<b>Summary</b>	
Total Land	\$107,610
Total Hard Costs	\$518,305
Total Soft Costs	\$132,357
<b>Total Construction Costs</b>	<b>\$758,272</b>

Table 16: New Construction Total Cost

Soft costs for the project, including taxes, fees, financing costs and others are estimated to be \$132,357 and when combined with land and hard costs leads to an estimated total construction cost of \$758,272.

Table 17 below highlights the projected sources and uses of funds for this project.

<b>Sources</b>	
Permanent Loan	\$454,963
Dev. Equity	\$303,309
<b>Total Sources</b>	<b>\$758,272</b>
<b>Uses</b>	
Land Cost	\$107,610
Hard Cost	\$518,305
Soft Cost	\$132,357
<b>Total Uses</b>	<b>\$758,272</b>

Table 17: Sources and Uses of Funds

Assuming a maximum debt to value ratio of 60% leads to an equity requirement of \$303,309 and \$454,963 in debt. This loan would require annual debt service payments of \$38,331 or \$3,194 per month assuming a 20-year term at 5.75%. This is equivalent to an annual debt service payment of \$4.26 per SF. The warehouse space currently available for lease in Delta County is significantly cheaper at \$1.51 per SF; however, it is a lower quality product than that which is estimated here.

### Existing building

The capital costs associated with the purchase and repurposing of the Meadow Gold Facility is outlined in Table 18, and Table 19 below.

The current listing price for the property is \$350,000. Combined with anticipated brokerage and bank fees, the total purchase cost is expected to be \$373,166.

Tenant improvements have been estimated for office space, which is expected to be 10% of the total building square footage and 2,000 SF of kitchen space. The total cost for these improvements plus associated fees and expenses is estimated to be \$101,134. These improvements do not address any of the other structural or finish work that may need to be done to the building to suit a tenants needs.

Item	Method	Factor	Bldg. Total
Acreage		N/A	0.86
Land Square Footage	Square Feet per Acre	43,560	37,462
Building Square Footage	Lot Coverage	0.52	19,592
<b>Purchase Costs</b>			
<b>Purchase Cost</b>	<b>Per Building</b>	<b>350,000</b>	<b>\$350,000</b>
<b>Fees</b>			
Broker Fees	% of Purchase Price	3%	\$10,500
Bank Appraisal	Per Loan	\$ 3,500	\$3,500
Bank Inspections	Per Loan	\$ 2,500	\$2,500
Permanent Loan Origination Fee	% of Loan Amount	1%	\$2,846
Miscellaneous Loan Fees	% of Loan Amount	1%	\$3,320
Title Policy & Updates	Per Parcel / Building	\$ 500	\$500
<b>Subtotal Fees</b>			<b>\$23,166</b>
<b>Total Purchase Costs</b>			<b>\$373,166</b>
<b>Improvement Costs</b>			
<b>Tenant Improvements</b>	<b>Per Square Foot Office/Kitchen</b>	<b>20.00</b>	<b>\$79,184</b>
<b>Taxes &amp; Fees</b>			
Misc. Fees	Per Building	\$ 2,000	\$2,000
Property Tax	Delta County Assessor	5.85%	\$8,050
<b>SubTotal Taxes &amp; Fees</b>			<b>\$10,050</b>
<b>Risk Mitigation</b>			
Builder's Risk Insurance	% of Hard Costs	0.75%	\$594
Legal Fees	Per Building	\$ 5,000	\$5,000
Performance & Completion Bond		1%	\$791.84
Property, Liability, & Casualty Insurance	% of Hard Costs	0.25%	\$198
Title Policy & Updates	Per Parcel / Building	\$ 500	\$500
<b>SubTotal Risk Mitigation</b>			<b>\$7,084</b>
<b>SubTotal Improvement Costs</b>			<b>\$96,318</b>
Improvement Cost Contingency	% of SubTotal	5.0%	\$4,816
<b>Total Improvement Costs</b>			<b>\$101,134</b>

Table 18: Meadow Gold Facility Purchase and Improvement Costs

<b>Summary</b>	
Total Purchase Costs	\$373,166
Total Improvement Costs	\$101,134
<b>Total Construction Costs</b>	<b>\$474,300</b>

Table 19: Meadow Gold Facility Total Cost

Table 20 below highlights the projected sources and uses of funds for this project.

<b>Sources</b>	
Permanent Loan	\$284,580
Dev. Equity	\$189,720
<b>Total Sources</b>	<b>\$474,300</b>
<b>Uses</b>	
Purchase Cost	\$373,166
Improvement Cost	\$101,134
<b>Total Uses</b>	<b>\$474,300</b>

Table 20: Sources and Uses of Funds

Assuming a maximum debt to value ratio on the finished project of 60% leads to an equity requirement of \$189,720 and \$284,580 in debt. This is also equivalent to a 76% debt to value ratio on the purchase of the building alone. This loan would require annual debt service payments of \$23,976 or \$1,998 per month assuming a 20-year term at 5.75%. This is equivalent to an annual debt service payment of \$1.22 per SF. This is cheaper than the warehouse space currently available for lease in Delta County at \$1.51 per SF and significantly cheaper than the new construction price of \$4.26; however, it is also a lower quality product.

### Equipment Cost

The equipment required for a food manufacturing facility varies greatly from product to product. In order to derive a cost estimate, equipment needs for a jam/sauce manufacturer have been identified. These needs, listed in the tables below, include sorting, processing, cooking, bottling and packaging. Also included are general kitchen, warehouse, safety, and mechanical equipment.

<b>Food Processing Equipment</b>	<b>Total Pieces</b>	<b>Cost per Piece</b>	<b>Total Cost</b>
Rolling racks - full size sheet pans	4	\$450	\$1,800
Accumulator table - filling line	1	\$4,000	\$4,000
Braising pan, tilt	1	\$10,307	\$10,307
Carts - 30"x60" flat bed	1	\$350	\$350
Conveyor - filling line	1	\$4,500	\$4,500
Cooler - 2 door reach in	2	\$3,600	\$7,200
Cooler - final product walk in 16x20, exterior compressor	1	\$19,000	\$19,000
Cooler - raw product walk in 16x20, exterior compressor	1	\$19,000	\$19,000
Cutter Mixer - (HCM) 30 qt.	1	\$9,272	\$9,272
Descrambler Table	1	\$4,000	\$4,000
Dewatering apparatus - Dryer, spin type	1	\$2,400	\$2,400
Dish Table, Clean	1	\$550	\$550
Dish Table, Soiled - with disposer port	1	\$1,400	\$1,400
Dishwasher - 2 rack, with booster, no tables	1	\$8,000	\$8,000
Disposer	1	\$2,500	\$2,500
Exhaust hoods with fire suppression & makeup air, priced per foot	10	\$1,000	\$10,000
Food pump and stainless pipe fittings (Waukesha type)	1	\$7,000	\$7,000
Freezer - 2 door reach in	2	\$4,600	\$9,200
Freezer - sub zero, final product walk in 16x20, exterior compressor	1	\$26,000	\$26,000
Freezer - sub zero, raw product walk in 16x20, exterior compressor	1	\$26,000	\$26,000
Grease trap(s) - 175 pound	1	\$3,100	\$3,100
Griddle, with oven disconnect	1	\$2,100	\$2,100
Grill - gas fired approx. 2x3 feet, w/wheels & quick	1	\$3,000	\$3,000
Ice Machine - 6 tons per day	1	\$7,000	\$7,000
Microwave, commercial grade	1	\$950	\$950
Mixer - 20 qt., table top with stainless bowl	1	\$4,900	\$4,900
Mixer - 80 qt. with bowl dollies, M802 with tinned bowl	1	\$26,500	\$26,500
Oven - deck, double deck with pizza floor, gas fired	1	\$12,196	\$12,196
Oven convection - full pan size, gas fired	2	\$5,500	\$11,000
Proof/holding cabinet	1	\$2,126	\$2,126
Range - 6 burner, gas fired ( conventional oven)	1	\$2,302	\$2,302
Robo Coupe, or similar (3 hp)	1	\$3,655	\$3,655
Sinks - 2 compartment	1	\$1,400	\$1,400
Sinks - 3 compartment	1	\$2,700	\$2,700
Sinks handwash, foot activated with stainless bowls	2	\$525	\$1,050
Slicer, heavy duty model	1	\$3,500	\$3,500
Steam kettle - 40-50 gal. with tilt	1	\$11,000	\$11,000
Steam kettle - 70-80 gal with tip out agitator	1	\$28,000	\$28,000
Steam kettle, twin table top 5 gal.	1	\$8,665	\$8,665
Steamer, convection - double unit	1	\$11,935	\$11,935
Tables - 5 foot on wheels; heavy duty stainless shelf	2	\$575	\$1,150
Tables - 6 foot on wheels; heavy duty stainless shelf	2	\$650	\$1,300
Tables - employee welfare area	5	\$125	\$625
Vegetable polisher (potato/carrot), counter top model 20 lb. capacity	1	\$2,500	\$2,500
Wire cooling racks on wheels - bottling, 4 tier 24x60x4	2	\$340	\$680
<b>Total Food Processing Equipment</b>			<b>\$325,813</b>

Table 21: Food Processing Equipment

<b>Packaging/Mechanical/Other Equipment</b>			
Miscellaneous Safety and Security Equipment	1	\$200	\$200
Fire alarm system	1	\$9,500	\$9,500
Security cameras with monitor	1	\$12,000	\$12,000
Cleaning Supplies	1	\$800	\$800
Hand Truck	2	\$65	\$130
Maintenance tools and spare parts	1	\$3,000	\$3,000
Pallet jacks, 2 1/2 ton capacity manual operation	2	\$400	\$800
Pallet racking	1	\$15,000	\$15,000
Air compressor - 8-10 hp, excluding piping	1	\$2,000	\$2,000
Room Cooling/Regrigeration	1	\$35,000	\$35,000
Water heater with storage system, 250 gal. per hour cap. gas fired	1	\$8,000	\$8,000
Steam generator - 20-30 hp.	1	\$35,000	\$35,000
Miscellaneous Equipment	1	\$1,000	\$1,000
Batch Code printer, excluding computer	1	\$5,000	\$5,000
Box taping machine	1	\$6,000	\$6,000
Heat Seal - double chamber -w/map capability	1	\$8,000	\$8,000
Label Applicator - jars and bottles	1	\$6,000	\$6,000
Shrink tunnel	1	\$3,300	\$3,300
Filler (bottling machine)	1	\$8,750	\$8,750
Twist Off/Capper	1	\$5,000	\$5,000
<b>Total Packaging/Mechanical/Other Equipment</b>			<b>\$164,480</b>

Table 22: Other Equipment

<b>Total Equipment Cost</b>	
Total Food Processing Equipment	\$325,813
Total Packaging/Mechanical/Other Equipment	\$164,480
<b>Total Equipment Cost</b>	<b>\$490,293</b>

Table 23: Total Equipment Cost

Food processing equipment is expected to cost \$325,813. The equipment list was derived through interviews with current food manufacturers and industry standards. Prices include both new equipment and used equipment where available and advisable according to industry best practices.

The expected cost for other equipment including bottling and packing equipment and mechanical equipment such as vent hoods, air compressors, and steam generators is \$164,480. Assuming a 100% loan at 5.75% for seven years for the total equipment cost of \$490,293 leads to an annual equipment cost of \$85k.

## Operating Budget

### Potential Lease Revenue

Although details of full-time lease arrangements for a fully equipped food manufacturing facility are unavailable, shared kitchen hourly rates can be used as a proxy for competitive lease pricing. The median price for shared kitchen space that we identified ranged from \$9 per hour to \$20 per hour with a median rate of approximately \$13. Because this provides exclusive access to one tenant, it is assumed that a rate slightly higher than those offered by shared kitchens could be achieved. At \$25/hr, the equivalent monthly lease rate for 40 hours per week access and 50 weeks per year would be \$3,333. This is assumed to be an all in cost for the tenant.

Table 24 below depicts the expected operating revenue for the facility taking into account expenses and potential vacancy. This income is projected to be \$22,562.

	<b>Total</b>
<b>Lease Revenue</b>	
Monthly Lease rate	3,333
Annual Lease Rate	39,996
<b>Lease Revenue</b>	<b>39,996</b>
Vacancy	6.00%
	2,400
<b>Effective Gross Income</b>	<b>37,596</b>
<b>Expenses</b>	
Management/Maintenance	3.50%
	1,400
Replacement Reserves (\$/SF)	0.15
	1,350
Property Tax (% of Cost)	1.50%
	11,374
Insurance (% of Cost)	0.12%
	910
<b>Total Expenses</b>	<b>15,034</b>
<b>Net Operating Income</b>	<b>22,562</b>

Table 24: Operating Income

### Return on Investment – New Construction

Table 25 below highlights the projected return on investment for this project. Assuming a ramp up period during year 1 to achieve stabilization occupancy and a sale at the end of five years with the building appreciating at 2% per year and equipment depreciating at

10% per year yields an anticipated IRR over that period of -6%. In addition to the initial equity outlay of \$303,309, operational shortfalls of approximately \$100k would need to be covered.

Year	0	1	2	3	4	5	Exit
<b>Revenue</b>							
Building Revenue		\$ 39,996	\$ 40,796	\$ 41,612	\$ 42,444	\$ 43,293	\$ 837,194
Equipment Revenue		\$ -	\$ -	\$ -	\$ -	\$ -	\$ 245,147
<b>Total Revenue</b>	<b>\$ -</b>	<b>\$ 39,996</b>	<b>\$ 40,796</b>	<b>\$ 41,612</b>	<b>\$ 42,444</b>	<b>\$ 43,293</b>	<b>\$ 1,082,340</b>
Vacancy	100%	47%	6%	6%	6%	6%	0%
<b>Total Gross Revenue</b>	<b>\$ -</b>	<b>\$ 21,198</b>	<b>\$ 38,348</b>	<b>\$ 39,115</b>	<b>\$ 39,897</b>	<b>\$ 40,695</b>	<b>\$ 1,082,340</b>
<b>Expenses</b>							
Equity	\$ 303,309						
Expenses		\$ 15,034	\$ 15,335	\$ 15,641	\$ 15,954	\$ 16,273	\$ -
<b>Total Expenses</b>	<b>\$ 303,309</b>	<b>\$ 15,034</b>	<b>\$ 15,335</b>	<b>\$ 15,641</b>	<b>\$ 15,954</b>	<b>\$ 16,273</b>	<b>\$ -</b>
<b>Net Operating Income</b>	<b>\$ (303,309)</b>	<b>\$ 6,164</b>	<b>\$ 23,014</b>	<b>\$ 23,474</b>	<b>\$ 23,943</b>	<b>\$ 24,422</b>	<b>\$ 1,082,340</b>
Debt Service		\$ 125,380	\$ 125,380	\$ 125,380	\$ 125,380	\$ 125,380	\$ 449,843
<b>Net Income</b>	<b>\$ (303,309)</b>	<b>\$ (119,216)</b>	<b>\$ (102,367)</b>	<b>\$ (101,907)</b>	<b>\$ (101,437)</b>	<b>\$ (100,958)</b>	<b>\$ 632,497</b>

Table 25: Return on Investment - New Construction

### Return on Investment – Meadow Gold Building

Table 26 below highlights the projected return on investment for the purchase and renovation of the Meadow Gold building. Assuming a ramp up period during year 1 to achieve stabilization occupancy and a sale at the end of five years with the building appreciating at 2%

per year and equipment depreciating at 10% per year yields an anticipated IRR over that period of -17%. The lower return is due to smaller property value gains over the period given the lower starting value. In addition to the initial equity outlay of \$189,720, operational shortfalls of approximately \$85,000 would need to be covered.

Year	0	1	2	3	4	5	Exit
<b>Revenue</b>							
Building Revenue		\$ 39,996	\$ 40,796	\$ 41,612	\$ 42,444	\$ 43,293	\$ 523,665
Equipment Revenue		\$ -	\$ -	\$ -	\$ -	\$ -	\$ 245,147
<b>Total Revenue</b>	<b>\$ -</b>	<b>\$ 39,996</b>	<b>\$ 40,796</b>	<b>\$ 41,612</b>	<b>\$ 42,444</b>	<b>\$ 43,293</b>	<b>\$ 768,812</b>
Vacancy	100%	47%	6%	6%	6%	6%	0%
<b>Total Gross Revenue</b>	<b>\$ -</b>	<b>\$ 21,198</b>	<b>\$ 38,348</b>	<b>\$ 39,115</b>	<b>\$ 39,897</b>	<b>\$ 40,695</b>	<b>\$ 768,812</b>
<b>Expenses</b>							
Equity	\$ 189,720						
Expenses		\$ 12,022	\$ 12,263	\$ 12,508	\$ 12,758	\$ 13,013	\$ -
<b>Total Expenses</b>	<b>\$ 189,720</b>	<b>\$ 12,022</b>	<b>\$ 12,263</b>	<b>\$ 12,508</b>	<b>\$ 12,758</b>	<b>\$ 13,013</b>	<b>\$ -</b>
<b>Net Operating Income</b>	<b>\$ (189,720)</b>	<b>\$ 9,176</b>	<b>\$ 26,085</b>	<b>\$ 26,607</b>	<b>\$ 27,139</b>	<b>\$ 27,682</b>	<b>\$ 768,812</b>
Debt Service		\$ 111,026	\$ 111,026	\$ 111,026	\$ 111,026	\$ 111,026	\$ 449,843
<b>Net Income</b>	<b>\$ (189,720)</b>	<b>\$ (101,850)</b>	<b>\$ (84,940)</b>	<b>\$ (84,419)</b>	<b>\$ (83,886)</b>	<b>\$ (83,344)</b>	<b>\$ 318,969</b>

Table 26: Return on Investment - New Construction

In both scenarios, the facility would need to be subsidized during its operation in order to provide a competitive lease rate to a tenant. The lower cost of the Meadow Gold building limits both the downside and upside potential of the project in comparison to new construction.

## Incentives

Various incentive programs are available to assist with the development of a food manufacturing hub. USDA offers a number of programs including the following:

- Value Added Producer Grant provides grant funding of up to \$75k for planning and \$250k for working capital, not to exceed 50% of total project costs;
- Rural Business Enterprise Grant (RBEG) provides funding for physical infrastructure and facilities;
- Rural Business Opportunity Grant (RBOG) provides support for food processing, marketing, and technical assistance; and
- Specialty Crop Block Grant (SCBG) provides support to enhance the competitiveness of fruits, vegetables, tree nuts, dried fruits, horticulture, and nursery crops (including floriculture);

The State provides a Rural Economic Development Initiative (REDI) grant program through the Department of Local Affairs (DOLA) and the Office of Economic Development and International Trade (OEDIT) of up to \$500k. This could be another potential source of capital financing. EDA also provides grant funding through their Public Works and Economic Adjustment programs that can be utilized in an agricultural production accelerator. EDA funded \$2.2 million to a similarly purposed project last year.

Securing sufficient grants to cover the building and equipment costs will allow the facility to be self-sustaining.

## Strategy

As discussed above, the proposed project would seek to identify a single user for the manufacturing facility. Ideally, this would be a medium sized food manufacturer that would like to tap into Delta's

strong agricultural community. Alternatively, a co-packer that would manufacture and package products for other entrepreneurs could be recruited into the facility. During an interview with the director of the Kitchen Coop, a shared kitchen and co-packing facility in Broomfield, CO, the potential for such an arrangement was discussed and some interest was expressed. Finally, a third option would be to pursue a similar model to the Blue Mountain Station and identify several entrepreneurs with smaller space needs who would lease out a portion of the facility and share the kitchen and some of the other facilities.

In order to recruit a medium sized food manufacturer to the facility, significant effort would need to be undertaken to visit trade shows and other industry gatherings to sell entrepreneurs on the benefits of the facility and the community. The largest trade shows that cater to such food manufacturers include the Natural Products Expo, the Fancy Foods Show, and locally, the Naturally Boulder Pitch Slam.

### Natural Products Expo West



This trade show focused on natural foods and other products was founded 1981. It features over one million square feet of exhibition space, over 71,000 attendees and 2,700 exhibitors. The next show

will take place March 10-13, 2016 at the Anaheim Convention Center in Anaheim, California.

### Fancy Food Show



Winter Fancy Food Show is the largest specialty food trade event on the West Coast and is a showcase of industry innovation. It features more than 80,000 products, 19,000 buyers, and 1,400 exhibitors. The next show will take place in San Francisco January 17-19, 2016.

In addition to the winter show, there is the Summer Fancy Food Show in New York City. This is the largest specialty food trade event in North America. It brings specialty food's top manufacturers, buyers, and thought leaders together under one roof for three days from June 26 – 28, 2016. The show features more than 180,000 products, 25,000 buyers, and 2,500 exhibitors.

### Naturally Boulder

Naturally Boulder's Annual Pitch Slam & Party provides a venue for 25 entrepreneurs to pitch their young company to a panel of recognized experts. It is an opportunity to meet promising food

entrepreneurs who are just starting out and are looking for opportunities.

All of these industry events provide the County an opportunity to get in front of food manufacturers and promote the benefits of locating in the County. An aggressive recruitment campaign will be necessary to identify potential tenants with high job growth potential for the community.

### Conclusion

The growing demand for specialty foods nationwide and in Colorado specifically provides an opportunity for new food manufacturers to enter the market and participate in that growth. Delta County's strong agricultural base and unique position as a prime fruit grower in the State provides a niche that entrepreneurs can take advantage of. The potential to capitalize on consumer demand for organic and local foods also provides opportunities in this space.

The development of a food manufacturing hub in Delta County would require grant subsidies in order to create a self-sustaining facility. This is true whether the project requires new construction, or if an existing building is repurposed, with the former requiring more support than the latter. If the facility were sold to a successful tenant after five years the project could recoup its outlays and see a modest return. If the project were able to generate this type of positive economic churn, a dynamic food manufacturing sector in the region could emerge.

Appendix A: Meadow Gold Facility



Figure 9: Meadow Gold Facility Overhead View

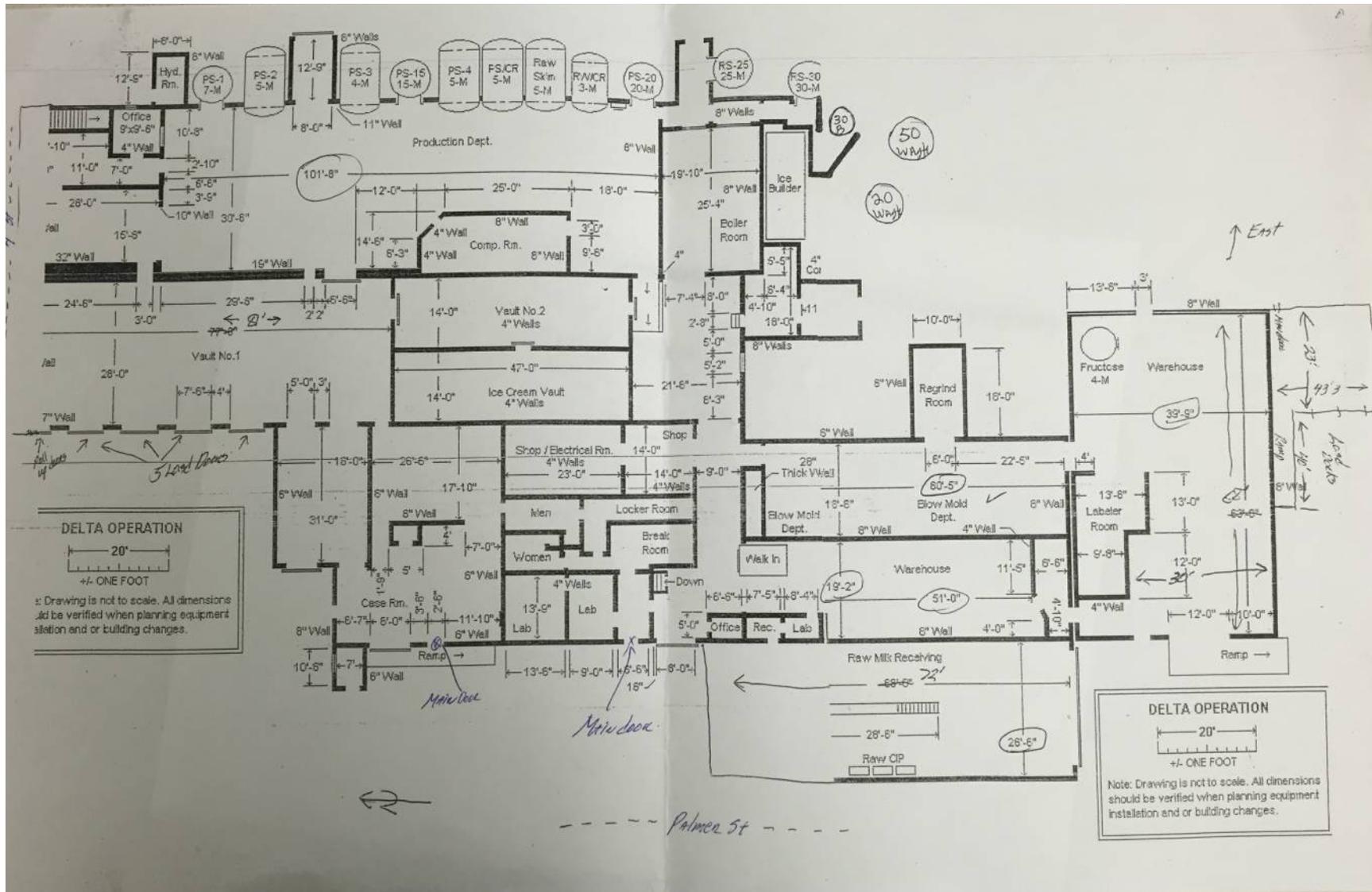


Figure 10: Meadow Gold Floorplan



Figure 11: North Side



Figure 13: West Side



Figure 12: East Side



Figure 14: East Side



Figure 15: Northwest Corner



Figure 16: Southwest Corner